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Reference Desk

*Governor's
Budget
Highlights*

1998-99

**MARC RACICOT
GOVERNOR**

**STATE OF
MONTANA**

DECEMBER 1996

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INTRODUCTION

This document is a short summary of the Governor's Executive Budget, which will be submitted to the Legislature in January of 1997. The Governor's recommendations for each agency budget will by law be submitted in conjunction with the analysis of the Legislative Fiscal Division. The Governor's Budget Office has prepared its detailed recommendations and provided them to the Legislative Fiscal Analyst.

The Legislative Fiscal Analyst will prepare a review of the Governor's Budget, and thereafter a single budget document will be published. For first time the Governor's Executive Budget and the Legislative Fiscal Analyst's review will be combined into one document for the convenience of the public and the Legislature.

The purpose of the Governor's Budget Summary is to present the rationale for the major policy choices made by the Governor as the Executive Budget was developed. Economic realities, priorities of the Governor, and plans for the future are addressed in summary form in this document.

This document and the full executive budget and legislative analysis will be made available on the state bulletin board and the state home page on Internet. The state home page may be accessed at <http://www.mt.gov/budget>.

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Because of Montana's stable economic and population growth, the state budget for Fiscal Years 1998-99 includes funding increases for education and public safety. The Governor also continues the implementation of the business personal property tax cut, which was enacted to improve Montana's economic competitiveness. In addition, funds are set aside for major residential property tax relief.

Highlights

- **NEW INVESTMENT IN K-12 EDUCATION** — State school support totals \$949.4 million in general funds with funding for enrollment increases and an increase in basic support in Fiscal Year 1999. There is also funding for an effort to improve the productivity and accountability of schools.
- **TAX CUTS TO IMPROVE MONTANA'S BUSINESS CLIMATE** — To spur further job creation, the budget includes funding to reimburse schools and local governments for reducing the Montana business personal tax to its lowest level this century. Montana had the highest business taxes in the nation and the continuation of this reduction is needed to allow the state to compete for new investments, jobs, and economic opportunity. The reduction of this tax by one third, as adopted by the 1995 Legislature, will cost an additional \$22 million this biennium. In addition, the Governor has set aside \$85 million in this budget for class four property tax relief.
- **BOLSTERING PUBLIC SAFETY** — The budget provides \$47.1 million in new general funds to strengthen corrections programs at the state and local level.

Construction of nearly \$42 million in new facilities is also recommended. If Montana is to continue as a civil society, then criminal offenders must be accountable for their crimes and Montanans need to feel safe in their communities and homes.

➤ **MAINTAINING THE COMMITMENT TO HIGHER EDUCATION** —

The budget fulfills the requirements of the Governor's compact with higher education to fund the state share of the salary and improvement plan. The budget provides funding for new enrollments and initiates funding to bring twenty-first century technology to the classrooms both on campus and off. All systems receive state funding increases. The Regents are encouraged to continue to work to reduce costs and make every possible effort to moderate increases in student fees.

➤ **INVESTMENT IN FAMILIES** — The Executive Budget has as a principal priority those items that provide for support and assistance to Montana families. The major areas of focus are the continued operation of the Montana welfare reform program (FAIM), the Governor's Council on Families, and prevention programs which are discussed under the section titled "Expansion of the Prevention Agenda".

The FAIM program is comprised of three segments: 1) Pathways - designed to prepare recipients for work; 2) Job Supplement - provides benefits to enhance their earning power to support their families, such as Medicaid coverage and day care, but does not include a cash grant; and 3) Community Service - required for most recipients who have completed the Pathways component but are not able to secure employment necessary to

access supplemental benefits such as medical coverage and day care.

The budget also contains \$30,000 general fund each year of the biennium for operation of the Governor's Council on Families. In mid-1996, the Governor appointed a council to create public forums to engage Montanans in discussions and actions to strengthen families, to advise the Governor on state policies and laws affecting families, and to facilitate the recognition and exchange of successful family strategies among Montanans.



LIVING WITHIN OUR MEANS —For the third biennium in a row, the Executive Budget will keep Montana living within its means — general fund spending is held at or below projected revenues and transfers.

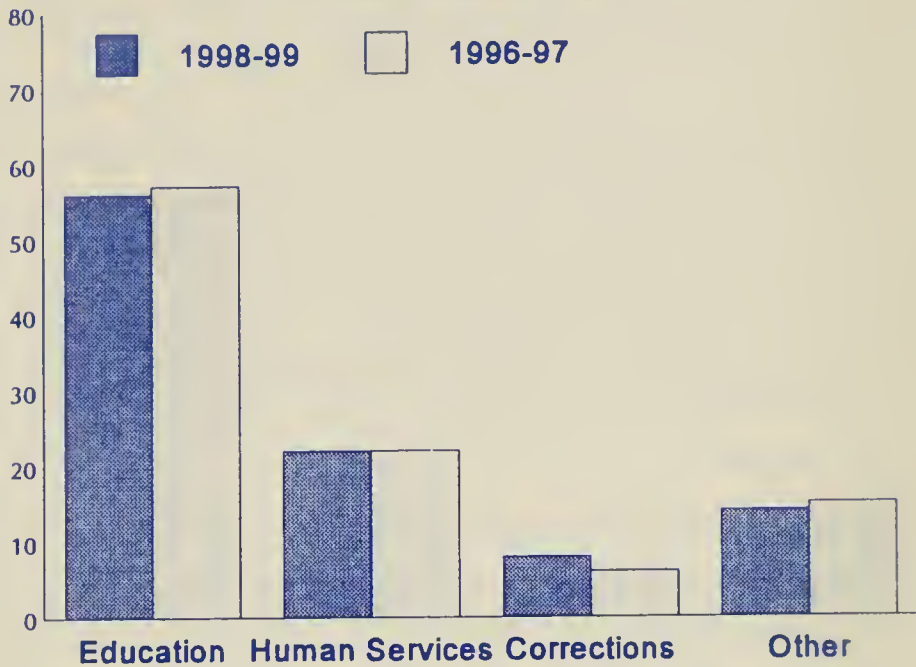
**GENERAL FUND
REVENUES, TRANSFERS, AND EXPENDITURES
(In Millions of Dollars)**

	Revenues and Transfers	Expenditures
1994	\$901.06	\$904.31
1995	940.09	945.57
1996 (without income tax refunds)	968.91	963.51
1996 (with income tax refunds)	968.91	984.99
1997	1001.58	999.20
1998	1024.69 ¹	1019.84
1999	1062.73 ¹	1061.19

¹ The Governor's projections exclude reappraisal revenue in 1998 and 1999. Expenditures in 1998 and 1999 include Guaranteed Tax Base appropriation for tax relief.

1998-99 GENERAL FUND EXPENDITURES

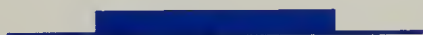
(PERCENT OF GENERAL FUND)



General fund expenditures for the 1999 biennium have increased by 5 percent over 1996-97 levels, while revenues, less property appraisal, for that same time period increased 5.2 percent. K-12 education remains the state's top funding priority — more than 45 cents of every general fund dollar is spent on K-12 education. Combined with higher education funding, the state will spend nearly 60 cents of every general fund dollar on education.

Education, public safety, and human services expenditures constitute about 85 percent of all state general fund expenditures. Corrections is the only area that will see an increase in the percentage of 1999 biennium general fund expenditures over the percentage in the current biennium.

*The
Economy*

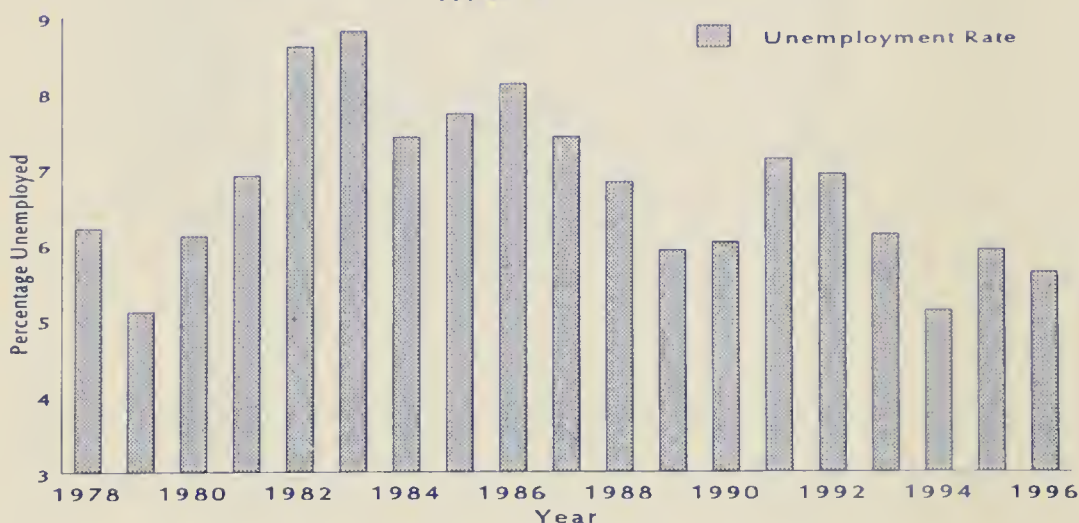


THE ECONOMY

Montana's economy is on course to create more than 15,000 new, non-agriculture jobs over the next two years. Our recovery is diverse in terms of regional and industrial sectors. Over the past year, employment gains in each of the state's five largest counties averaged between 2 and 3 percent. On an industry basis, manufacturing, construction, and a broad range of services are all contributing to the expansion.

MONTANA UNEMPLOYMENT RATES

1978 - PRESENT



Unemployment rates in Montana have dropped to the levels of the 1970s after the higher rates of the 1980s. Unemployment continues to be higher than the surrounding states in the region, but in October of 1996 the seasonally adjusted rate in Montana was 4.9 percent as compared to 6.1 percent in September of 1995.

Low average wages are one of the reasons Montana was 46th in the nation in per capita income last year.

Of the seven major employers, average wages are above the private sector average in five. However, services and retail trade still account for nearly 65 percent of private non-agriculture employment, resulting in the low overall average weekly wage.

THE ECONOMY

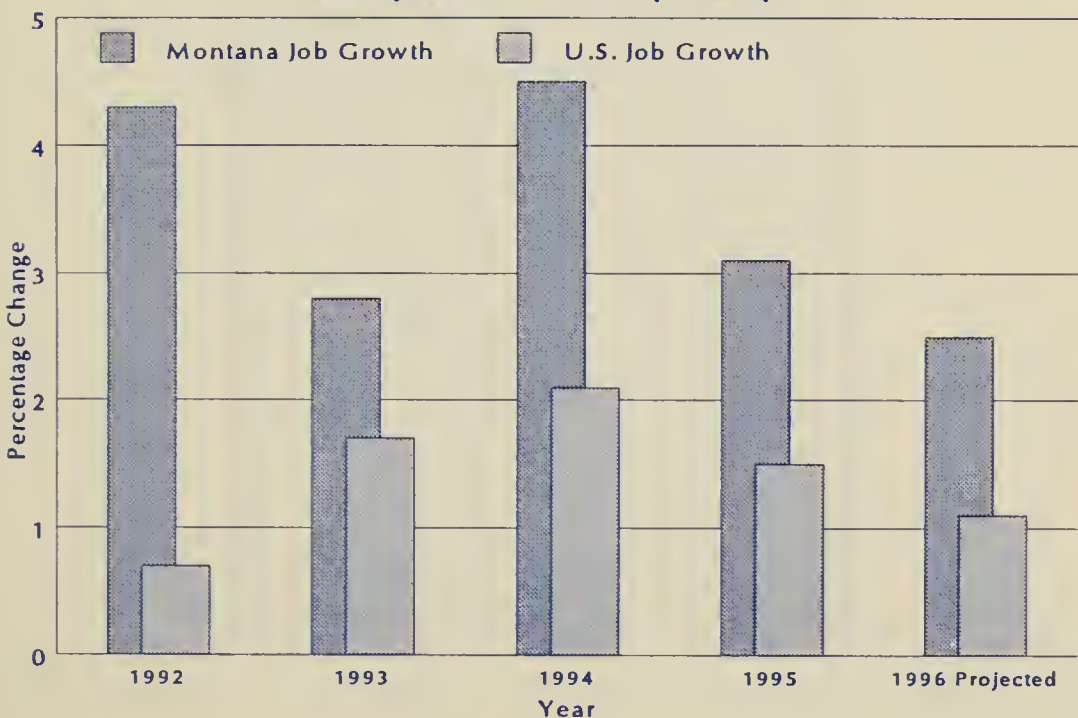
AVERAGE WEEKLY EARNINGS PER WORKER MONTANA'S LEADING INDUSTRIES

Industry	Average Weekly Earnings Oct. 1996	% of Average	Number of Employed
Services	\$298.49	85.1%	102,200
Retail Trade	212.63	60.7%	80,200
Manufacturing	517.86	147.7%	24,000
TCU	592.41	169.0%	21,200
Construction	631.98	180.3%	18,900
Wholesale Trade	429.59	122.5%	18,400
Mining	709.14	202.3%	5,300
Total Private	\$350.57	100.0%	286,300

However, reflecting employment gains and the diversity of new jobs, Montana wage and salary growth will continue at a slow but steady rate. Montana job growth was above the national average in the early 1990s. Projections for the future are that non-agriculture job growth will remain at two percent, allowing Montana to at least keep pace with the rest of the nation.

Job Growth: MONTANA VS. U.S.

AVERAGE ANNUAL PERCENTAGE CHANGE



*Investing
in
Montana's
Future*

INVESTING IN MONTANA'S FUTURE

IMPROVING THE BUSINESS CLIMATE FOR JOB CREATORS

To help ensure that Montana's current economic growth continues and expands, the budget includes a number of initiatives aimed at improving the business climate for job creators.

The Governor recommended and the 1995 Legislature approved SB 417, which phased in a 33 percent reduction of the business personal property tax, from 9 to 6 percent, over three years ending in 1999. The measure assured that local governments and school districts would be held harmless from reductions in tax revenue. The reimbursement from the state for the lost tax base will amount to \$40 million in this budget. In addition, local governments continue to receive reimbursement for earlier reductions in personal property taxes amounting to \$25.7 million. Montana business property taxes have historically been higher than surrounding states, which has reduced the state's ability to attract and retain good jobs.

This budget also includes a request for \$430,000 to fund the state match for a Manufacturing Extension Program. This program will provide funding for four field engineers and graduate students from Montana State University to work with small companies in areas of equipment/technology, technical information, facility design, process improvement, and feasibility studies for manufacturers.

The Montana Board of Investments has also helped job development in the state through participation in several projects which will help maintain the current level of new job creation through the next biennium and

INVESTING IN MONTANA'S FUTURE

beyond. The Board's investments in Pasta Montana in Great Falls and the ASMI development in Butte helped to create these additions to the Montana economy. The Board will continue to be called on in the future to use its investment portfolio of over \$6 billion to prudently assist the state to develop new jobs.

INITIATIVES FOR PRIMARY AND SECONDARY EDUCATION

- ➡ Montana's public elementary and secondary school system will experience an increase in funding. This allows the state to begin to initiate educational reforms in the elementary grade levels. Continuing to improve on the current high level of public school educational attainment is critical to efforts in attracting and retaining good jobs.
- ➡ This budget contains proposals which will allow the state to begin investing in innovative education technology. This investment in technology and teacher development will be financed by revenues from expanded timber harvests on state lands.
- ➡ The Governor's budget for education includes a proposal to provide Montanans with important information about public schools. In comparison with other states, Montana expends few resources to collect and report information concerning the successes and failures of public education. Without adequate educational data, it is often difficult for state officials, schools, communities, and parents to make informed educational decisions. Recognizing this fact, the Governor's budget calls for the development of an annual Montana Education

INVESTING IN MONTANA'S FUTURE

Profile which will provide meaningful information about local school performance to all Montana communities.

- » The budget also provides \$5.5 million for helping local school boards with debt service payments on bond issues approved by local voters to improve and construct school facilities. This funding would come from diverting a portion of the flow of revenue to the coal trust and investing it in school facilities.

PUBLIC SAFETY

- » A major expansion in adult corrections is being proposed by the administration. Rapidly growing populations within the adult system require expansions of facilities and staff. Adult corrections programs account for the majority of increases in state employees in this budget.

The Governor views public safety as one of the primary functions of government. To fulfill this obligation the budget overcomes an historic trend of inadequate investment by providing sufficient correctional resources to ensure that those who commit crimes are accountable for their behavior. These initiatives are designed to reduce the risk that Montana's citizens will become victims of crime. The initiatives will contribute to the safety of our homes and our communities.

- » The state presently has 250 adult male prisoners in Texas with an increase to 400 predicted before additional facilities can be constructed in Montana.

INVESTING IN MONTANA'S FUTURE

- ➡➡ Adult Offender Local Facilities — The state is currently a partner with Cascade County in constructing a new regional correctional facility. Glendive and Missoula have approved their bond issues, and negotiations are under way for state participation. Other Montana counties have also expressed an interest in a partnership with the state in building regional facilities.

EXPANSION OF THE PREVENTION AGENDA

- ➡➡ The prevention agenda provides funds in several programs to promote healthy families including a program to improve the health, social, and economic well-being of pregnant and parenting adolescents in Montana. In unintended pregnancy the mother is less likely to seek appropriate prenatal care, the child is at a much higher risk of being of low birth weight, and the child is at greater risk of being abused and not receiving sufficient resources for healthy development. While the health and social risks are true for any age, unintended teen pregnancy is of particular concern.
- ➡➡ The Department of Public Health and Human Services is requesting funding to provide intensive early intervention to preserve families that are identified as at-risk of having a child removed from the home by providing services to stabilize and strengthen the family while maintaining a child's safety. In addition to the significant social benefit of keeping the child with their natural family, there is a substantial financial savings to the state through avoidance of an out-of-home placement.

INVESTING IN MONTANA'S FUTURE

INVESTMENT IN OUR Fish, Wildlife AND Parks Heritage

- The Department of Fish, Wildlife and Parks continues to make important progress toward maintaining partnerships with landowners, hunters, anglers, state park users, Nature Conservancy, Rocky Mountain Elk Foundation, U.S. Forest Service and others to employ conservation easements as an innovative means to protect wildlife habitats while keeping private land in private ownership, preserving Montana's agricultural heritage, and maintaining the local tax base.

The Department has initiated a no-holds barred assault on whirling disease to learn about the impacts its presence may have on the state's world class fisheries and important angling-related economy.

STATE INFRASTRUCTURE

- The Executive Budget includes recommendations for consideration by the Long-Range Planning Appropriations Subcommittee of \$209.2 million from various funding sources.

Major projects include:

- \$129 million for major maintenance, new construction of state buildings, and agency projects:
 - \$8.6 million from the cash program for roofs, repairs, hazardous materials mitigation, Americans with Disabilities Act of 1990 compliance, and a new \$1.45 million secure care facility for juvenile girls at Boulder.

INVESTING IN MONTANA'S FUTURE

\$68.5 million from proposed general obligation bonds including \$42.6 million for adult and juvenile correctional facilities, \$20 million for Montana University System facilities in Billings, Bozeman, Dillon, Great Falls, and Missoula, and \$5.7 million for renovation and restoration of the Capitol.

\$25.4 million of state special revenue projects for state parks, fisheries, wildlife habitat, veterans' homes and cemetery, job service, and transportation buildings.

\$3.8 million of federal special revenue projects for the Departments of Military Affairs and Fish, Wildlife and Parks.

\$22.7 million of other funds primarily for Montana University System projects.

Two public-private partnership lease/purchase projects.

➤➤ \$55 million information technology infrastructure general obligation bond for nine major projects that comprise a public-private multi-state-and-local government agency coordinated partnership.

➤➤ \$9 million Treasure State Endowment grants and \$1.9 million loans for public works projects of cities, towns, counties, and special districts.

➤➤ \$5 million general obligation bond for continuation of State Buildings Energy Conservation Program projects.

➤➤ \$3 million Reclamation and Development Program grants for oil, gas, and hard rock reclamation.

➤➤ \$2 million Renewable Resource grants and \$1.9 million loans for groundwater, irrigation, water

INVESTING IN MONTANA'S FUTURE

rights, water distribution systems, and related projects.

- \$1.2 million Cultural and Aesthetic projects including \$.9 million for 93 projects statewide, \$.24 million for arts council folklife programs and administration, and \$.11 million for historical society mural and stained glass restoration in the Capitol.
- \$1.2 million Oil Overcharge projects including the State Buildings Energy Conservation Program, Energy Share, ethanol development, and greater Yellowstone Park partnership.

*P*rogram
Expenditures



PROGRAM EXPENDITURES

K-12 Education Spending Per Pupil

Total state funding for K-12 education is budgeted to increase from \$456.7 in Fiscal Year 1996 to \$488.7 in Fiscal Year 1999. There is a total of \$35.9 million in increased general fund ongoing commitment to K-12 education.

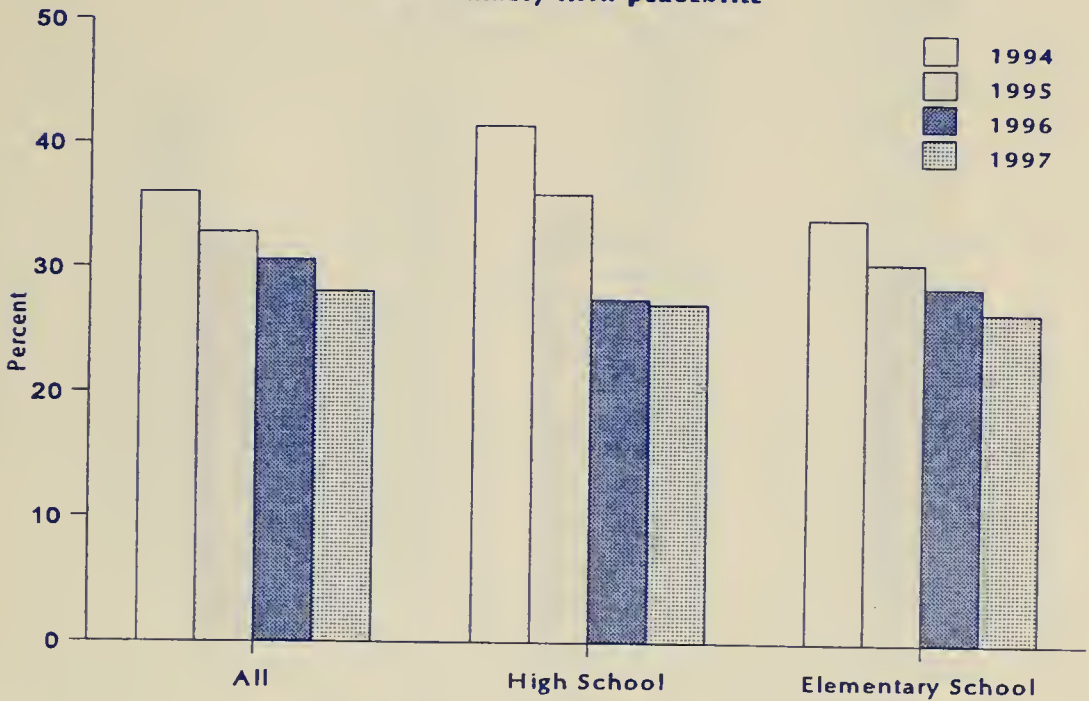
K-12 BASE Aid provides for enrollment increases and the progression of low-spending districts to the BASE 80 percent level. School enrollments are anticipated to increase over the Fiscal Year 1996 level by 2,785 and 3,645 in Fiscal Years 1998 and 1999, respectively. In addition, 46 districts budgeting below the minimum level must increase their budgets to the minimum in Fiscal Year 1998. The average budget increase for these districts will be 3.5 percent.

The expenditure disparity between school districts shows how well equalized district expenditures are relative to each other. The disparity in school districts expenditures lies at the heart of the Lobel court decision which found the school equalization system unconstitutional. Reducing the disparity is the primary goal of school funding reform. It is generally regarded as constitutionally acceptable if the expenditure disparity is not more than 25 percent (if the spending in the district at the 95th percentile is no more than 25 percent more than the spending in the district at the 5th percentile). The chart on the following page indicates that the disparity has been moving toward the desired 25 percent level in the four years since enactment of the current school funding system. This progress is primarily the result of increased expenditures in previously low-spending districts and freezing of expenditures in very high-spending districts.

PROGRAM EXPENDITURES

SPENDING DISPARITY

Fifth vs Ninety fifth Percentile



School Facilities

The administration is proposing to expand the program which provides state assistance to districts that issue bonds to build facilities. The proposal will increase the amount in the state program to \$5.5 million in the 1999 biennium and will assist school districts with improvements to their facilities.

HIGHER EDUCATION

➡ Enrollments — Current resident enrollments are below the level projected in the 1996 Legislative Session by approximately 300 students per year. This will result in a reversion as promised by the Board of Regents of approximately \$1 million. Enrollments in the next two years are expected to increase because high school graduating classes have been increasing since 1992.

PROGRAM EXPENDITURES

- ➡➡ Transferability — Regents have approved a policy requiring all campuses to accept the general education programs completed by transfer students at other units of the system, including community colleges.
- ➡➡ Graduation Guarantees — All campuses will have four year graduations guaranteed by January 1997.
- ➡➡ Duplication of Programs — Nearly 100 programs and options have been eliminated because they have too few graduates.
- ➡➡ Class Sizes — To avoid over-specialization, campuses have developed minimum class sizes.

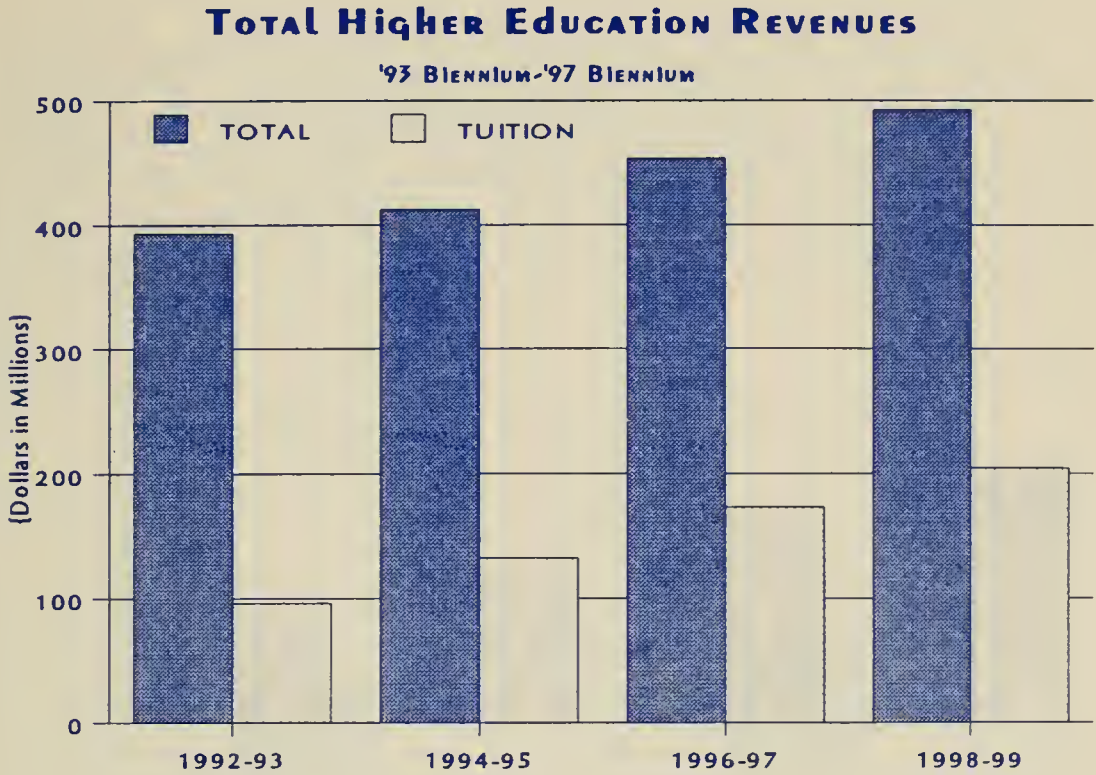
For 1998-99, the budget includes the following: total general fund, including pay plan and millage spending, increases of \$14 million; total spending increases of \$38.7 million from all funds.

Recommended increases include:

- ➡➡ Standard inflationary items
- ➡➡ Virtual university classes offered over the Internet from western states
- ➡➡ New program of financial aid: Montana Tuition Assistance Program
- ➡➡ Market pay increases for increased productivity from faculty members

Resident tuition rates were \$1,137 for all 4-year students in Fiscal Year 1993 and range from \$1,723 to

PROGRAM EXPENDITURES



\$1,942 in Fiscal Year 1997. Non-resident student enrollment and rates have increased significantly to account for the additional increase in total tuition collected. Non-resident enrollment increased from 4,721 in Fiscal Year 1992 to almost 6,900 in Fiscal Year 1997.

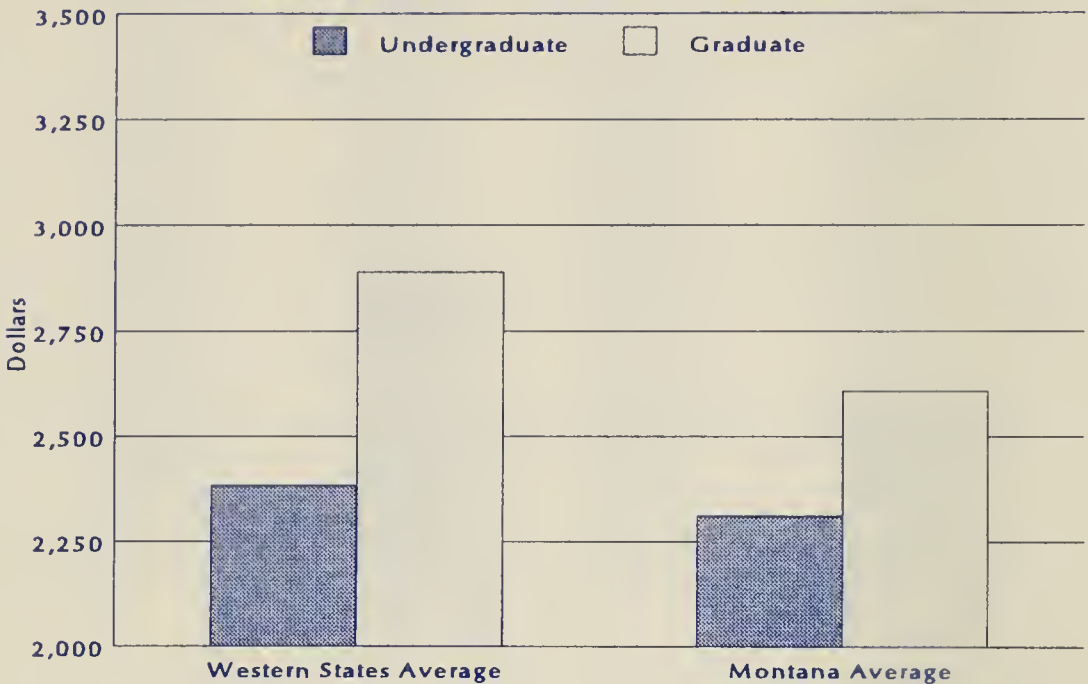
Although the budget reflects 6 percent student fee increases for higher education, higher education in Montana continues to be a bargain compared to the rest of the nation.

Student financial aid, including grants, loans, and work study from all state, fee, federal, and private sources for Montana students, totals approximately \$34 million.

PROGRAM EXPENDITURES

HIGHER EDUCATION TUITION

1995-96 RESIDENT UNDERGRADUATE AND GRADUATE



HEALTH AND WELFARE Medicaid

The 1998-99 caseload is projected to increase only 2 percent. Total Medicaid costs, however, are increasing 6.8 percent, primarily because of increased utilization of health care services and increases in more expensive services such as prescription drugs and long-term care.

Even with this increased use of services, the cost per beneficiary in Montana remains among the lowest in the nation. This is due, in part, to Montana's system of prior authorization for selected services, which helps to avoid unnecessary utilization while assuring access to appropriate services.

Montana's Medicaid Pharmacy Program continues to participate in the federally mandated drug rebate

PROGRAM EXPENDITURES

program. Under this program, drug rebates are paid by manufacturers directly to the state, based on records of drugs dispensed to Medicaid beneficiaries. The state returns to the federal program the federal cost sharing portion of the rebates received. Montana expects drug rebates to total \$6,191,835 in Fiscal Year 1997.

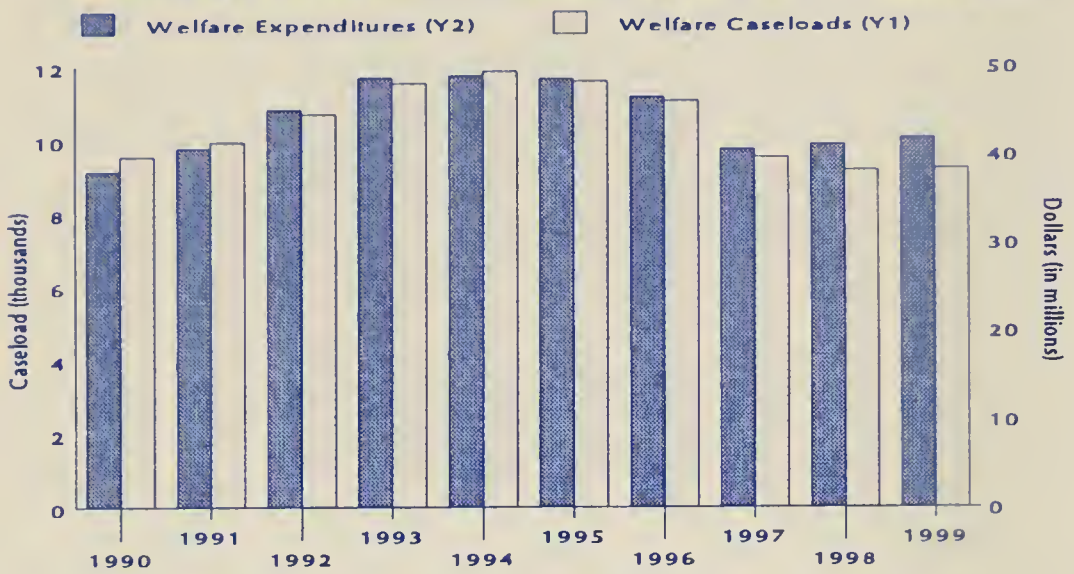
FAMILIES ACHIEVING INDEPENDENCE IN MONTANA (FAIM)

During the 1995 Legislature, the state received authorization to implement a state welfare reform initiative called FAIM, pending federal approval of a program waiver. Beginning in February of 1996, the state began to implement a phased-in transition to FAIM. The transition will be complete in February of 1997. On August 22, 1996, the federal/state welfare program, Aid for Families to Dependent Children (AFDC), ceased to exist. It was replaced by the federal/state program, Temporary Assistance for Needy Families (TANF). FAIM substantially resembles the federal initiative, and with some modifications to conform to federal law, will continue to operate.

Caseloads for the new program, generally comparable to the former AFDC, have fallen over the last three fiscal years. This reduction in caseloads has resulted in a \$9.9 million biennial reduction in the Executive Budget. Some of the recent declines can be partly attributable to the FAIM program. Former cash recipients have opted to divert to the Job Supplement Program in order to maintain their employment and forego cash payments.

PROGRAM EXPENDITURES

WELFARE BENEFITS EXPENDITURES AND CASELOADS



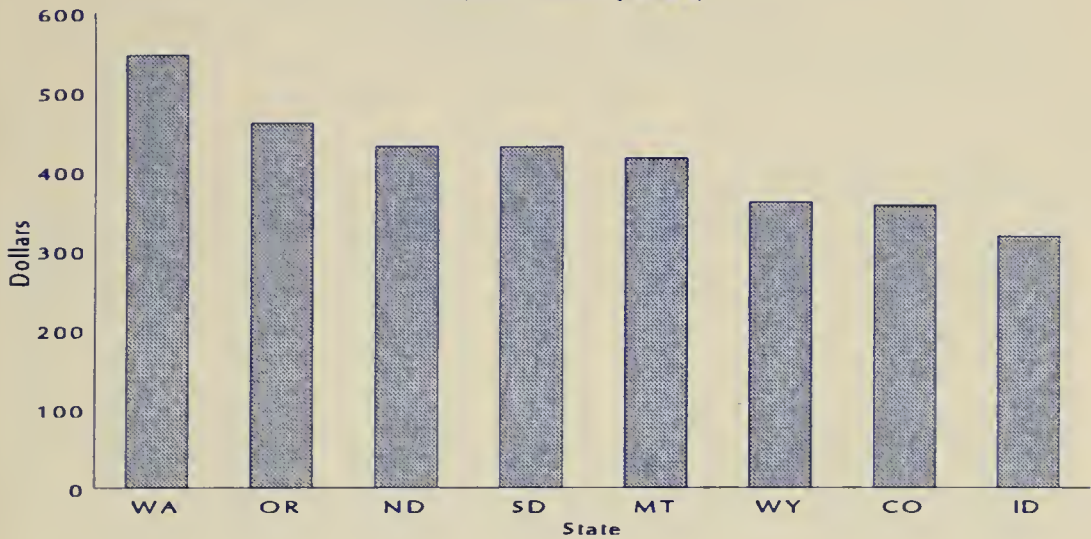
After a period of unprecedented caseload growth which peaked at nearly 12,000 per year during Fiscal Year 1994, FAIM caseload is now projected to decrease in 1998-99 to approximately 30 percent below the high point in 1995. Factors contributing to this decrease include: a greater emphasis on job skills and education; increased work incentives; enhanced fraud prevention effort; an improved economy and an increase in employment; and a decreasing birth rate.

No grant reductions are included in the budget for 1998-99. In comparing grant levels for a family of three to other states as of January 1, 1996, Montana grant levels remain among the average of western states excluding California.

- ➡ To encourage FAIM recipients to move from welfare to work and to break down barriers to employment, the budget includes \$6.9 million total funds to extend child care benefits for FAIM participants. Because of work requirements under FAIM, additional child care is needed to support families as they move toward self-sufficiency.

PROGRAM EXPENDITURES

Typical Monthly Welfare Payments
Family of Three (1996)



- ➔ The budget also contains approximately \$1 million for services that support FAIM participants as they seek and maintain employment.

OTHER HEALTH AND WELFARE PROGRAMS

AIDS DRUG ASSISTANCE PROGRAM

- ➔ The budget includes nearly \$1.35 million per year for HIV/AIDS drug treatment. The Department of Public Health and Human Services has also dedicated \$95,000 in additional general fund in Fiscal Year 1997 to serve more clients within the existing drug formulary, as well as to pay for additional drugs recently approved by the Food and Drug Administration.

DEVELOPMENTAL DISABILITIES PROGRAM

- ➔ Over 3,200 Montanans with developmental disabilities or who are at risk of having developmental disabilities and their families receive

PROGRAM EXPENDITURES

services from 52 local, non profit, contracted corporations in nearly 200 communities from Alberton to Zortman. An additional 450 families continue to wait for services.

- Eastmont Human Services — 52 percent of the residents at Eastmont Services Center are involved in some kind of vocational training in which they earn money.
- Montana Developmental Center — The Montana Developmental Center has moved into its redesigned, more efficient campus with six new home-style living units. MDC had an average daily population of 109 residents during the last biennium.

VOCATIONAL REHABILITATION

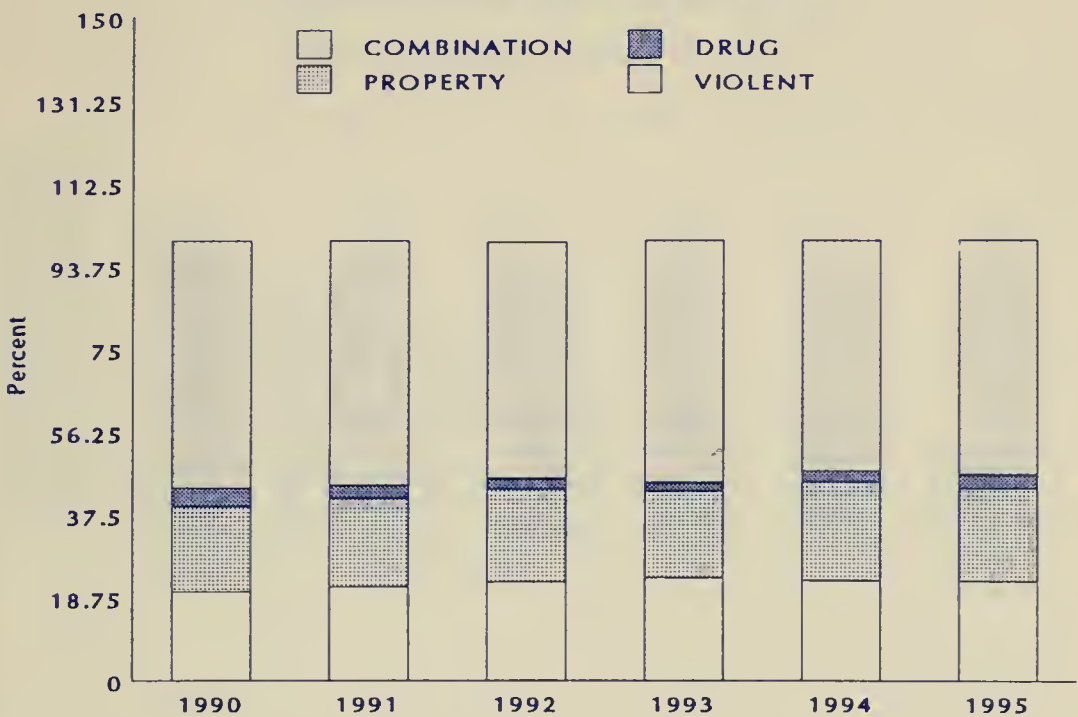
- Vocational Rehabilitation (VR) rehabilitated 919 Montanans into employment during Fiscal Year 1996. This represents a 14 percent increase over Fiscal Year 1995. VR clients worked an average of 28.8 hours per week after completing the program and earned an hourly wage of \$6.83.

PUBLIC SAFETY

- **Prison Population** —The Department of Corrections will propose and develop with the public, other criminal justice agencies, and the Legislature, new partnerships and a long-term plan for management of corrections populations. This will include increased prison capacity by developing 1,400 beds through a combination of regional jails, increases at Montana State Prison in Deer Lodge, the Women's

PROGRAM EXPENDITURES

Types Of Crimes By Percent



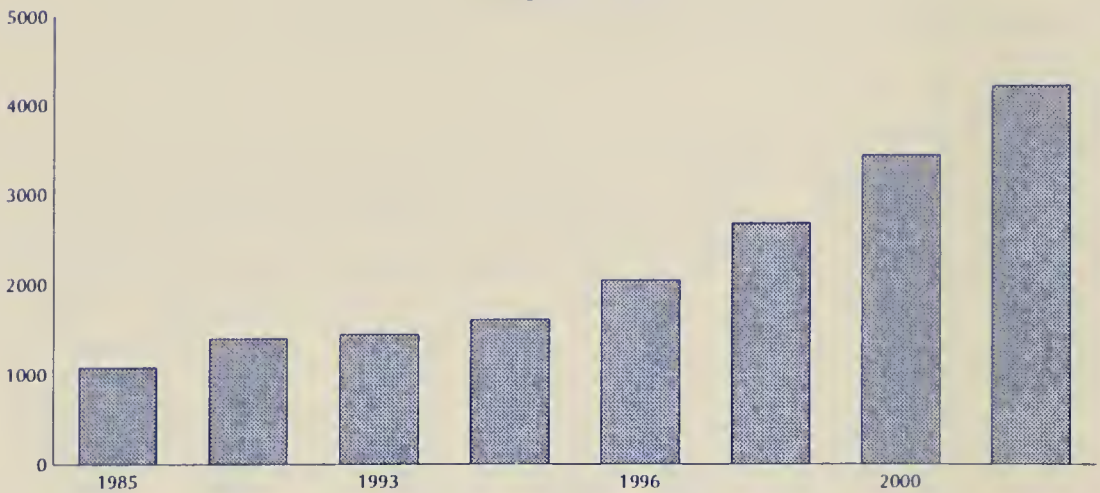
An effective plan must consider the profile of Montana correctional populations in which the majority of offenders (53%) within the institutional correctional system have been convicted of more than one type of crime.

Growth in the number of male inmates is projected to accelerate through 2002--continuing the pressure on state budgets and local resources as well. The men's prison system admissions exceeded 900 in Fiscal Year 1996, a 69.5 percent increase from 1993.

PROGRAM EXPENDITURES

MALE INMATES of SYSTEM

PROJECTIONS



Including the men's and women's prisons, the Montana Department of Corrections currently operates eight correctional programs for male offenders and five for female offenders. On June 30, 1996, these programs housed an inmate population of 2,044 males and 138 females. By July 1, 1999, this number is projected to increase to 3,054 males and 160 females.

- **Proposals to upgrade security at the prisons** — The Department will strengthen the security of its facilities by addressing overdue maintenance issues, increasing the number of correctional officers, removing inmates from working in areas with access to sensitive information, and ensuring effective management of populations through an intensified work and treatment environment.
- **Tougher prisons** — The Department will make Montana's prisons tougher by introducing effective forced labor for those who are not willing to work, have failed under community supervision and returned, or are awaiting other work assignments.

PROGRAM EXPENDITURES

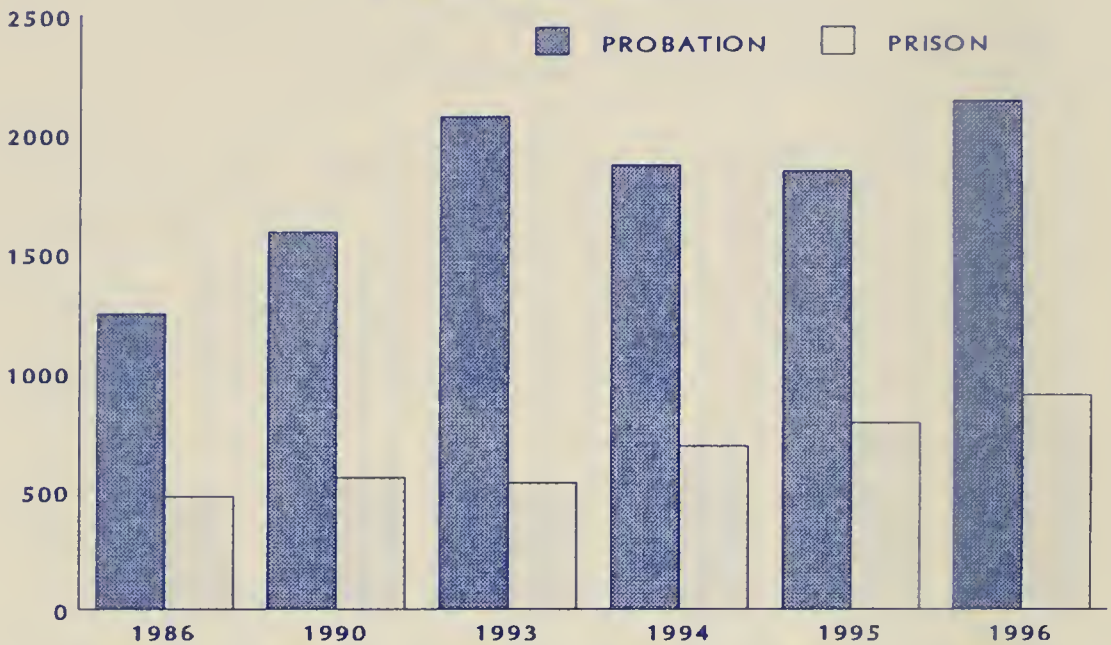
The Department will shift to a clearer system of earned incentives and strive to increase work, treatment, and education hours as a part of the inmate's day. Inmates will be required to pay for a greater percentage of medical care and other programs provided by the Department.

➤➤ **Technology and evaluation** — Montanans must provide prisons and correctional personnel with the technology needed to enhance the safety of communities and to provide accurate information. This technology will provide electronic storage and retrieval of inmate photographs and fingerprints to ensure quick and accurate dissemination in the event of escape; communication links between criminal history records and corrections record systems to aid law enforcement in criminal investigations; improvements in the ability to track arrests and violations; and basic computer services to collect data, to evaluate programs, and to provide for timely victim notification.

➤➤ **Enhanced community supervision** — The state will increase contact and supervision of offenders residing in Montana's communities by adding additional parole and probation staff. Work must be done with communities to establish and fund expanded community corrections facilities while revisiting and revising laws affecting community corrections and alternative punishments in order to provide effective support and modernize options available at the local level. The following chart shows comparable admissions to probation and prison and illustrates the need for expansion of community supervision.

PROGRAM EXPENDITURES

PROBATION VERSUS PRISON Relative Admissions



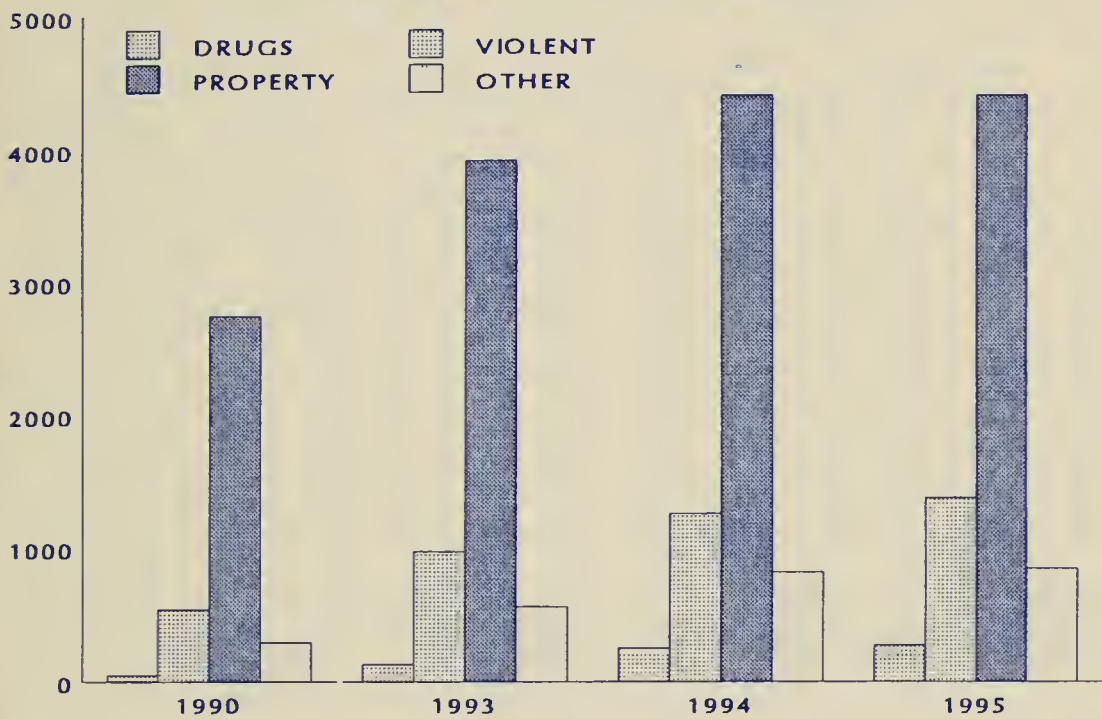
As shown above, admissions to the prison have increased at a faster rate during the last decade than admission to probation. Furthermore, the Fiscal Year 1996 average monthly caseload for probation and parole was 4,993 and is projected to increase to 5,226 by the end of Fiscal Year 1997. This is an increase of 4.7 percent over Fiscal Year 1996 caseloads. The probation and parole caseload is projected to reach 6,270 by the year 2001. Historically, 68 percent of this caseload is male and 32 percent is female.

- ➔ **Certified Corrections Training** — The Department has continued efforts to develop and enhance the ability of correctional professionals, in cooperation with the Department of Justice, by establishing a certified Montana Law Enforcement Academy Correctional Training Program. This training

PROGRAM EXPENDITURES

program will be designed to support the field of corrections as a career at local and state levels. Increased training will be made available on site at all Department facilities. This investment in staff will help them provide safer, better managed facilities and community programs.

YOUTH ARRESTS BY CRIME TYPE



The number of youths arrested for violent crimes has more than doubled since 1990. Montana must ensure immediate and effective consequences, support victims of juvenile crime, and identify ways to enhance the resources and authority of local officials to react effectively to juvenile crime.

➔ **Effective consequences for juvenile crime** — To provide effective consequences for juvenile crime Montana must provide expanded community transition facilities, adequate male and female secure facilities, sex offender secure custody for severe

PROGRAM EXPENDITURES

offenders, and intensive supervision programs for juvenile offenders.

- **Communities Intervening In Delinquency** — The Department plans to allocate \$5,366,770 to communities in Montana. The funds are to be utilized for prevention, treatment, and placement of juveniles under the supervision of the Youth Court. These funds are in addition to the \$116,474 the Department now distributes to nine judicial districts for prevention and monitoring.

As of June 30, 1996, the total population of juveniles in Pine Hills School, Montana Youth Alternatives, and the Juvenile Transition Centers was 145. This population is projected to increase to 234 by June 30, 1999. By the year 2001, it is estimated that 289 juveniles will be in Pine Hills School, the Montana Youth Alternatives Program, Juvenile Transition Centers, or will be on intensive supervision programs. This is an increase of almost 100 percent over Fiscal Year 1996.

DEPARTMENT of COMMERCE

- The budget provides \$430,000 to fund the Montana Manufacturing Extension Program.
- Accommodations tax receipts of over \$9 million each year of the next biennium will continue to show a gradual increase. Travel Montana will continue to enhance the development of the industry in every part of Montana in order to improve all local economies and to spread tourist impacts from west to east.

PROGRAM EXPENDITURES

- The Department is designated as the administering agency to create and coordinate the Certified Communities Program which funds local economic development organizations on a one-to-one matching grant basis (\$0.50 state to \$0.50 local).

DEPARTMENT of TRANSPORTATION

The Department will maintain a construction program of \$376 million in the coming biennium. There will be no need for a gas tax increase in the 1999 biennium, but unless there are significant changes in the operations of the Department by 1999, or additional revenue is collected, or multiple users of the highway special revenue account are eliminated, either a reduction in the construction programs or a gas tax increase will have to be considered in two years. The Department will consider every possible option to reduce costs, will work with the congressional delegation to maximize federal revenue, and will carefully set priorities to minimize the need for additional revenue in the future.

DEPARTMENT of Fish, Wildlife AND Parks

In excess of \$2 million will be generated as a result of the expanded block management program to provide an incentive for landowners to further public hunting access on private lands. This program opened up an additional two million acres of private land to public hunting. In 1996 approximately 700 landowners provided over seven million acres of private land to public hunting.

PROGRAM EXPENDITURES

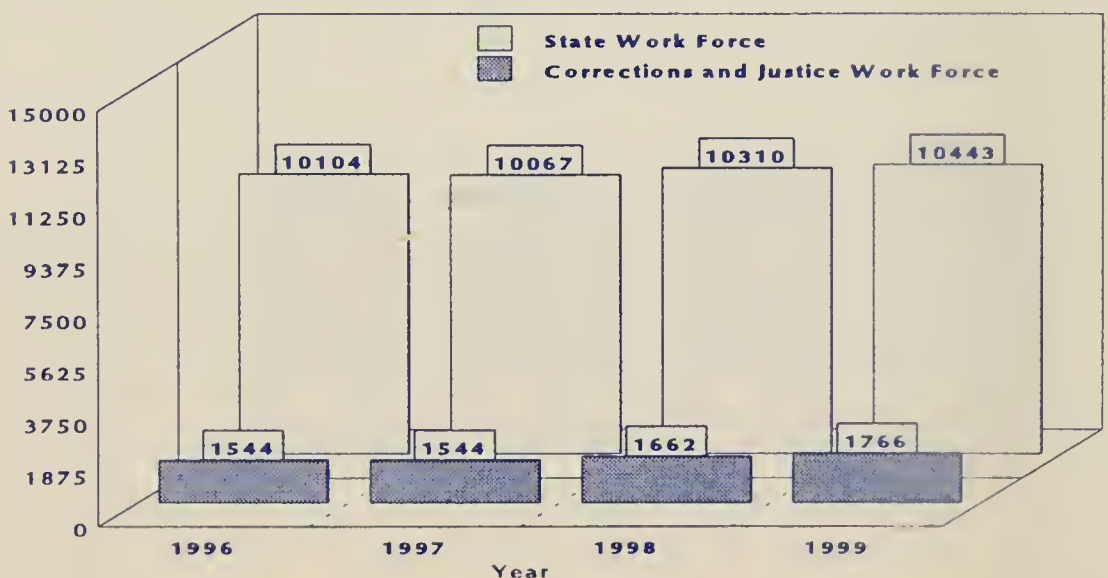
MONTANA'S STATE WORKFORCE CUMULATIVE PERCENT OF CHANGE IN STATE WORKFORCE

Efficiency in State Government — Since taking office in 1993, the Governor has made cost-effective use of state employees to provide necessary public services. In 1998-99, the state's workforce of 10,443 employees will provide Montanans with safety, education, transportation, health, and other essential public services.

The Governor has made protecting the public from crime one of the administration's top priorities. As a result of this emphasis, the number of state personnel providing public safety will increase by 14.4 percent from 1996 to 1999. Public safety efforts include the protection of life and property, the enforcement of state laws, and the prosecution and incarceration of offenders. The largest public safety programs are administered by the Department of Corrections, the Montana Highway Patrol, and the Department of Justice. Over the same period, the number of all other state personnel in agencies under the budgeting authority of the Governor will increase by 3.4 percent while still providing essential services to Montana's citizens.

COMPARATIVE EMPLOYEES

1996 - 1999



*S*ummary



SUMMARY

GENERAL FUND Appropriated 1997 AND

Agency	Actual FY 96	Projected FY 97
Legislative Branch	5,040,932	6,892,520
Judiciary	6,174,454	6,173,140
Governor's Office	2,552,644	2,727,103
Secretary of State's Office	0	38,246
Comm Political Practices	276,756	352,016
State Auditor's Office	2,093,039	2,172,388
Office of Public Instruction	459,355,175	465,493,540
Crime Control Division	2,057,200	2,216,787
Department Of Justice	14,811,329	16,001,577
Montana University System	108,118,751	114,400,303
Board of Public Education	117,269	119,968
School for the Deaf and Blind	3,193,928	3,016,073
Montana Arts Council	132,016	115,874
Library Commission	1,573,567	1,454,342
Historical Society	1,363,467	1,392,525
Dept. of Fish, Wildlife & Parks	407,582	409,931
Dept. of Environmental Quality	1,616,484	1,840,939
Department of Transportation	249,800	250,000
Department of Livestock	409,508	553,092
Dept. Nat Resources/Conserv	14,615,157	17,150,529
Department of Revenue	28,313,620	28,610,510
Department of Administration	3,153,838	3,795,351
Appellate Defender	101,175	104,129
Long-Range Building	753,382	136,234
Department of Agriculture	491,678	480,230
Dept. Of Corrections	55,638,259	59,414,934
Department of Commerce	1,737,087	1,694,237
Labor & Industry	1,248,751	1,270,842
Dept. of Military Affairs	2,187,256	2,401,338
Public Health/Human Serv	217,181,942	232,299,798
Feed Bill	5,000,000	
General Reversions	<u>(5,000,000)</u>	
Subtotal	934,966,046	972,978,496
Statutory Appropriations		
District Court Reimbursement	4,703,439	5,186,000
Refund Income Tax Surplus	21,482,063	0
Property Tax Reimbursement	12,843,382	12,843,000
Debt Service	6,356,742	2,497,000
Cash Management Interest	5,652	20,000
Banking Charges	714,943	715,000
TRANS Interest	3,217,352	1,865,000
Emergency Assistance	707,634	166,613
Emergency Assistance	0	<u>2,930,000</u>
Subtotal	<u>50,031,207</u>	<u>26,222,613</u>
Grand Total	<u>984,997,253</u>	<u>999,201,109</u>

SUMMARY

COMPARISON

REQUESTED 1999 BIENNIA

Requested w/Pay FY98	Requested w/Pay FY 99	1997 Biennium Total	1999 Biennium w/Pay Total
5,595,921	6,279,650	11,933,452	11,875,571
7,153,608	7,235,633	12,347,594	14,389,241
3,029,552	3,038,461	5,279,747	6,068,013
0	0	38,246	0
279,796	283,349	628,772	563,145
2,440,789	2,427,537	4,265,427	4,868,326
469,341,732	489,458,105	924,848,715	958,799,837
2,497,446	2,512,529	4,273,987	5,009,975
18,185,394	18,187,257	30,812,906	36,372,651
114,185,155	117,256,374	222,519,054	231,441,529
126,427	126,700	237,237	253,127
3,098,766	3,077,674	6,210,001	6,176,440
500,957	496,163	247,890	997,120
1,608,819	1,560,428	3,027,909	3,169,247
1,571,135	1,579,124	2,755,992	3,150,259
428,616	424,392	817,513	853,008
2,139,380	2,160,350	3,457,423	4,299,730
250,000	250,000	499,800	500,000
544,421	559,181	962,600	1,103,602
13,612,821	13,858,013	31,765,686	27,470,834
26,106,844	26,148,468	56,924,130	52,255,312
5,476,707	5,464,963	6,949,189	10,941,670
156,151	165,140	205,304	321,291
0	0	889,616	0
514,169	509,379	971,908	1,023,548
77,490,168	84,343,173	115,053,193	161,833,341
2,593,919	2,517,316	3,431,324	5,111,235
1,296,929	1,293,970	2,519,593	2,590,899
2,423,530	2,423,739	4,588,594	4,847,269
232,491,998	237,520,081	449,481,740	470,012,079
0	5,000,000	5,000,000	5,000,000
(5,000,000)	(5,000,000)	(5,000,000)	(10,000,000)
990,141,150	1,031,157,149	1,907,944,542	2,021,298,299
5,546,000	5,997,000	9,889,439	11,543,000
0	0	21,482,063	0
12,843,000	12,843,000	25,686,382	25,686,000
8,645,000	8,554,000	8,853,742	17,199,000
20,000	20,000	25,652	40,000
715,000	715,000	1,429,943	1,430,000
1,926,000	1,903,000	5,082,352	3,829,000
0	0	874,247	0
0	0	2,930,000	0
29,695,000	30,032,000	76,253,820	59,727,000
1,019,836,150	1,061,189,149	1,984,198,362	2,081,025,299

SUMMARY

GENERAL FUND REVENUE HISTORY AND PROJECTIONS for FY 98/99 (Millions)

Source of Revenue	Actual FY 1996	Estimated FY 1997	Estimated FY 1998	Estimated FY 1999
Individual Income Tax	350.161	367.279	387.141	409.888
Corporation License Tax	59.337	62.516	64.771	68.009
Coal Severance Tax	9.714	10.115	10.655	10.713
Oil Severance Tax	9.730	9.456	9.090	9.025
Interest on Investments	15.997	13.425	12.433	11.584
Long-Range Bond Excess	52.369	52.569	54.718	57.298
Coal Trust Intrst Income	41.532	42.747	43.205	43.763
Insurance Premiums Tax	26.133	27.939	30.113	32.408
Public Institutions Reimb	16.142	15.783	15.310	15.168
Liquor Profits	6.300	6.200	6.064	6.198
Liquor Excise Tax	7.203	6.686	6.491	6.542
Inheritance Tax	15.404	15.427	15.450	15.474
Metal Mines Tax	4.026	3.077	3.326	3.765
Electrical Energy Tax	3.520	3.839	3.859	3.878
Drivers' License Tax	2.574	3.902	3.960	4.020
Telephone License Tax	5.712	5.381	5.569	5.764
Beer License Tax	1.356	1.420	1.441	1.463
Natural Gas Sev Tax	0.936	0.859	0.925	0.992
Freight Line Tax	0.780	7.900	1.800	1.800
Wine Tax	0.846	0.882	0.895	0.909
Video Gaming Tax	10.666	10.996	11.326	11.666
Vehicle License Fees	4.805	5.285	5.708	6.165
Vehicle Registration	9.801	9.907	10.020	10.141
Property Taxes	204.083	208.655	238.717	241.802
Interest and Income	42.032	42.305	43.081	44.678
Mineral Royalties	24.959	21.630	22.191	22.352
Nursing Facility Fees	6.580	6.777	6.980	7.190
Lottery	7.859	7.500	7.500	7.500
Other Revenue Sources	<u>22.637</u>	<u>25.648</u>	<u>24.620</u>	<u>25.177</u>
Total	<u>963.194</u>	<u>996.105</u>	<u>1,047.359</u>	<u>1,085.332</u>

SUMMARY

EXECUTIVE BUDGET GENERAL FUND BALANCE

The Executive Budget projects an estimated ending Fiscal Year 1999 general fund balance of approximately \$38.558 million based on expenditures approved by the Governor and on revenue projections prepared by the Governor's Budget Office. The ending balance represents 4 percent of Fiscal Year 1999 estimated disbursements.

The administration recognizes that the budget process under current law is driven by the Legislature's estimates of available revenues. Should legislative estimates differ markedly from those used to develop the Executive Budget and result in a projected ending fund balance below \$25 million, the administration will review budget recommendations in an effort to maintain a \$25 million ending fund balance.

The administration anticipates a total ending fund balance reaching \$135 million by the end of Fiscal Year 1999, based on present law revenues and requested general appropriations act and pay plan appropriations. Present law items and assumptions that contribute to the present law balance are discussed below.

Revenues — The Governor's Budget Office estimates that current law revenues will increase from \$1959.3 million in the 1997 biennium to \$2,132.7 million for the 1999 biennium, or by \$173.4 million. Much of the estimated increase is due to increased revenues from the 101 mills state property tax levy and the soon-to-be completed property reappraisal. Present law revenues are increased by \$71 million because of the reappraisal of residential and commercial properties. The Executive Budget recommends that these additional revenues be used for property tax relief

General Appropriations — The amounts shown for Fiscal Years 1997 through 1999 represent the amounts appropriated in the general appropriations act. Fiscal Year

SUMMARY

1998 and Fiscal Year 1999 amounts are contained in the Executive Budget recommendations for present law and new proposals. These amounts are covered in great detail in the body of the more comprehensive budget book. Fiscal Year 1997 includes adjustments for appropriation authority moved from Fiscal Year 1997 to 1996 for supplementals (\$4.745 million) and allocations of the university system "lump sum" funds to Fiscal Year 1997 from 1996 (\$0.708 million).

Pay Plan — Fiscal Year 1997 represents the pay plan appropriation approved by the 1995 Legislature. The amount shown for the 1999 biennium is the estimated appropriation needed to fund the executive pay plan.

Statutory Appropriations — Current law provides for numerous statutory appropriations from the general fund. The amounts shown for Fiscal Years 1997 through 1999 are the administering agencies' best estimate of the amounts that will likely be disbursed from these appropriations under current law.

Two exceptions to this rule should be noted. The amounts shown for district court reimbursements are based on the Governor's Budget Office estimates of motor vehicle license tax collections less recommended appropriations to the Office of the Appellate Defender. The net amount is statutorily appropriated under current law for district court reimbursements.

TRANS interest, interest on the state issuance of tax and revenue anticipation notes for short-term cash flow needs, is based on the assumption that \$60 million of notes will be issued for 9 months in each of Fiscal Years 1998 and 1999. In Fiscal Year 1997, \$59.5 million of notes were issued.

Reversions — Estimated amounts of current year appropriations that will be uncommitted at year end are shown on the reversion line. The executive balance sheet

SUMMARY

assumes “base” reversions of \$5.0 million for Fiscal Years 1997 through 1999. The Fiscal Year 1997 amount includes extraordinary reversions of \$4.5 million of unspent authority for property tax reimbursements and a \$6.4 million reversion from the Office of Public Instruction school equalization appropriations for the 1997 biennium.

Residual Equity Transfers — The amounts are “residual” amounts left in state special revenue accounts that under law or agreement are to be transferred to the general fund at year end. Three sources of funds are recorded for Fiscal Year 1997 through 1999. Transfers of coal severance tax revenues account for \$3.876 million of the 1997 amount, \$1.276 million for 1998, and \$1.346 million for 1999. The 1998 and 1999 amounts reflect requested appropriations of these funds included in the Executive Budget request.

Transfers of \$1.6 million per year are included for portfolio registration fees. The State Auditor is required to transfer any excess fees generated to the general fund under current law.

Repayment of the \$20 million general fund loan made in 1989 to the State Fund is anticipated to be repaid in equal installments for Fiscal Years 1998 and 1999. These amounts make up the bulk of the transfers anticipated in the 1999 biennium.

SUMMARY

Office of Budget and Program Planning General Fund Balance Summary For 1999 Biennium (In Millions)

Present Law and General Budget Recommendations

	Actual FY 96	Projected FY 97	Projected FY 98	Projected FY 99
Beginning Fund Balance	45.884	29.794	32.175	88.621
Revenues:				
Current Law Estimate	<u>963.193</u>	<u>996.106</u>	<u>1,047.360</u>	<u>1,085.330</u>
Total Available	1009.077	1,025.900	1,079.535	1,173.951
Disbursements				
General Appropriations	934.969	931.743	979.731	1,017.152
Pay Plan Appropriations		11.613	4.697	9.990
Statutory Appropriations:				
Property Tax Reimb	12.843	12.843	12.843	12.843
Debt Service	6.356	2.497	4.895	4.804
Cash Managemt Interest	0.006	0.020	0.020	0.020
TRANS Interest	3.217	1.865	1.926	1.903
Distr Court Reim	4.703	5.185	5.546	5.997
Banking Services	0.715	0.715	0.715	0.715
Emergency Assistance	0.706	3.097		
Refund Inc Tax Surplus	21.482	0.000		
Misc Appropriations		9.890		
Suppl Appropriations		13.789		
Continuing Appropriations		16.844		
Feed Bill		5.000	0.000	5.000
Reversions		<u>(15.900)</u>	<u>(5.000)</u>	<u>(5.000)</u>
Total Disbursements	<u>984.997</u>	999.201	1,005.373	1,053.424
Adjustments	(1.424)	0.000		
Residual Equity Transfer	<u>7.138</u>	<u>5.476</u>	<u>12.876</u>	<u>12.943</u>
Ending Fund Balance	29.794	32.175	87.038	131.887

Governor's Recommendations

Adjusted Begin Fund Bal		29.794	32.164	38.602
Revenues:				
Reappraisal Property Tax Relief			(35.500)	(35.500)
Natural Resource Damage Loan		<u>(0.011)</u>	<u>(0.045)</u>	<u>(0.045)</u>
Total		(0.011)	(35.545)	(35.545)
Expenditures:				
Debt Service Long Range Buildings			2.250	2.250
Debt Service Information Technology			1.500	1.500
K-12 GTB Appropriation for Tax Relief			10.663	3.965
Competition Initiative			<u>0.050</u>	<u>0.050</u>
Total		<u>0.000</u>	<u>14.463</u>	<u>7.765</u>
Adjusted Ending Fund Balance		32.164	37.019	38.558

SUMMARY

GENERAL FUND COMPARISON 1997 BIENNIUM To 1999 BIENNIUM (In Millions)

	1997 Biennium	1999 Biennium	Differ- ence	% Diff- erence
K-12 Distribution				
to Schools	\$916.7	\$949.4	\$32.7	3.6%
University System	215.9	225.7	9.8	4.5%
Corrections	112.6	159.7	47.1	41.8%
PHHS	448.1	467.4	19.3	4.3%
Legislative Branch	9.4	11.6	2.2	23.4%
Judiciary	11.7	14.1	2.4	20.5%
Pay Plan	16.6	14.9	-1.7	-10.2%
Income Tax Rebate	21.5	-0-	-21.5	-100%
Statutory Approps, Other				
Agencies, Debt Service,				
Adjustments	<u>231.7</u>	<u>238.1</u>	<u>6.4</u>	<u>2.8%</u>
Total	1984.2	2080.9	96.7	4.9%

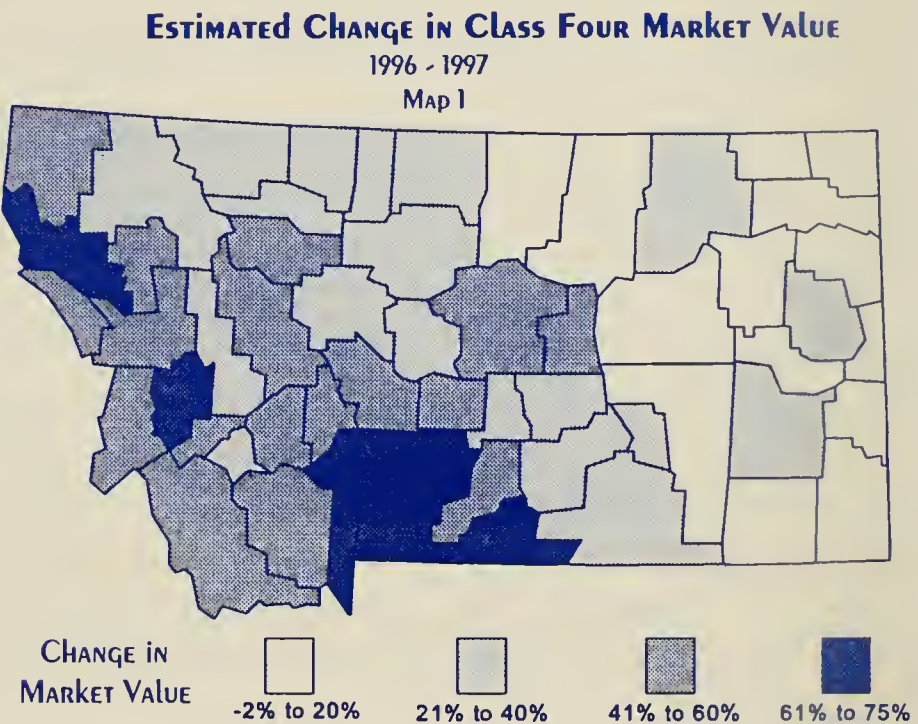
This schedule uses the most recent Governor's Budget Office estimates for 1997 biennium disbursements which include supplemental appropriations and reversions. The intention is to show the largest changes from the 1997 biennium to the 1999 biennium. The 1996 income tax rebates are shown in the disbursement base to provide a comparable base to that used by the Legislative Fiscal Analyst. The analyst included the rebates in the disbursement base when reporting on actions of the 1995 Legislature. If those rebates are removed from the base, then the increase in total proposed spending is approximately 1% more than shown in this schedule.

SUMMARY

Class 4 Property Reappraisal

Without any present law changes, reappraisal of Class 4 property, which includes residential and commercial real property, will take effect in 1997. A preliminary estimate² shows that the 1997 reappraisal will bring substantial market value increases for Class 4 property.

The preliminary information for the upcoming reappraisal cycle projects Class 4 market values increasing an average of 43% statewide. As shown on Map 1, the increases by county range from 0% to 75%.



Under current law, the projected increase in Class 4 reappraisal values would produce an increase in revenue of \$71 million as a result of the existing statewide 101 mills (95

²* Individual property values will not be available until the reappraisal work is 100% complete. The expected completion date is April 1997.

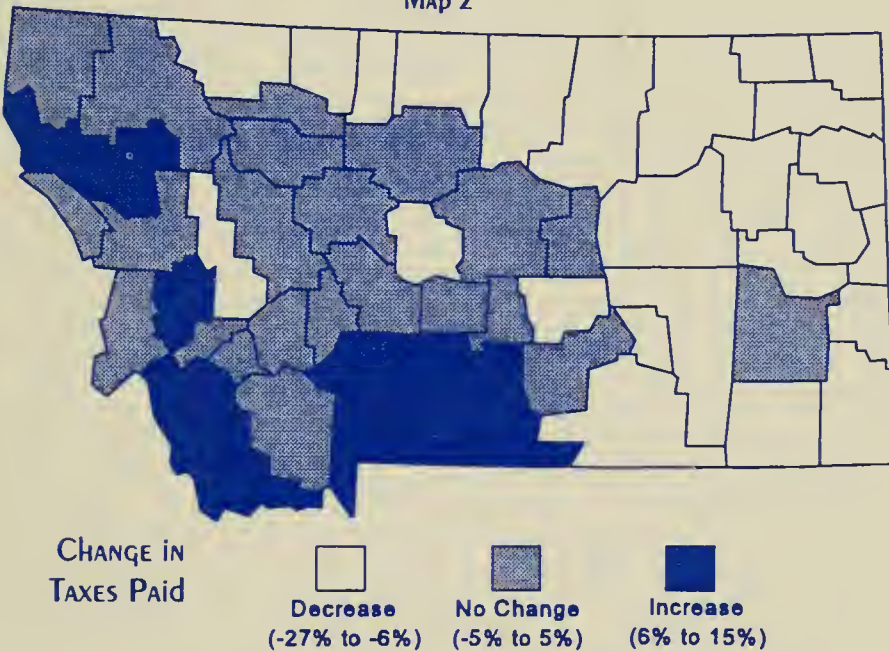
SUMMARY

mills for K-12 and 6 mills for the University System) and \$14 million from reduced Guaranteed Tax Base payments for the School Foundation Program. This \$85 million is not relied upon to fund the Governor's 1999 Biennium Executive Budget and is set aside for property tax relief.

ESTIMATED CHANGE IN CLASS FOUR TAXES PAID

1996 - 1997

Map 2



If the State of Montana, schools, counties and cities do not use the additional property tax revenue resulting from reappraisal, and if the additional revenue is targeted as property tax relief to Class 4 taxpayers, then the property tax impact on individual taxpayers can be mitigated as shown in Map 2.

For the first time, these preliminary numbers are available for discussion prior to and during a regular legislative session. Even though the Legislature will be able for the first time to address ways of mitigating the reappraisal impacts on Montana taxpayers before they occur, the numbers were not available in time to form a comprehensive approach prior to the Legislature's deliberations.

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